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RUEHCV/AMEMBASSY CARACAS 1700  
RUEHPE/AMEMBASSY LIMA 1707  
RUEHMN/AMEMBASSY MONTEVIDEO 3916  
RUEHQT/AMEMBASSY QUITO 4331  
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RHEHNSC/NSC WASHINGTON DC  
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STATE FOR WHA/AND  
TREASURY FOR SGOOCH  
ENERGY FOR CDAY AND SLADISLAW

E.O. 12958: N/A  
TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [BL](#)  
SUBJECT: HYDROCARBONS REGULATOR ENSURES FUEL SUPPLY

REF: A. LA PAZ 1885

[1](#)B. LA PAZ 1660

[1](#)1. (SBU) Summary: Bolivia's state oil company, YPFB, successfully assumed control of Bolivia's wholesale hydrocarbons market on July 1, as provided for by the 2005 Hydrocarbons Law. To ensure adequate supplies of gasoline and diesel, the hydrocarbons regulator issued an emergency decree requiring Petrobras-owned refineries to sell to YPFB. No fuel shortages have occurred. The hydrocarbons regulator is focusing on preventing liquid petroleum gas (LPG) contraband from going to neighboring countries, where the LPG prices are higher, in order to ensure sufficient domestic supply. The regulator is concerned that the GOB's plan to eliminate it would damage the sector and increase corruption. End summary.

#### YPFB Takes On Gas Distribution

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[1](#)2. (SBU) On June 30, gasoline wholesaler contracts with the GOB expired, and YPFB (Bolivia's state oil company) took over the wholesalers' duties of transporting liquid petroleum gas (LPG) and gasoline from refineries to gas stations and distributions points. (Note: the May 2005 Hydrocarbons Law ordered that YPFB assume this function. End note.) GOB hydrocarbons regulator Mario Adrian told Econoff on July 11 that YPFB has not yet signed a distribution contract with Petrobras, which owns the refineries that provide the fuel for distribution. YPFB and Petrobras negotiations are likely to continue into the fall. To ensure that YPFB's take-over of distribution did not result in fuel shortages, the hydrocarbons regulator issued an emergency decree ordering Petrobras to provide YPFB fuel without a contract.

[1](#)3. (SBU) Although sector contacts had anticipated that YPFB's service would be poor, leading to shortages and blockades, Adrian said YPFB's take-over of fuel distribution was proceeding fairly smoothly. He explained that YPFB had hired 50 employees and expanded its presence nationwide to ensure that it could provide the service. (Note: To YPFB's credit,

there have not been long lines for gasoline or LPG in La Paz.  
End note.)

#### YPFB to Import Venezuelan Diesel

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¶4. (SBU) According to Adrian, YPFB also became the country's only diesel importer on July 1. YPFB plans to import 200,000 barrels of diesel per month from Venezuela. Adrian confirmed earlier press reports that these imports will be paid for partially with Bolivian soy products and partially using Venezuelan credit. Bolivia signed the "Caracas Energy Cooperation Accord" with Venezuela in 2005, in which Venezuela's state oil company (PDVSA) agreed to provide diesel to Bolivia. According to the agreement, 75 percent of the amount due PDVSA would be paid upon delivery, and 25 percent would be paid over 17 years.

#### LPG Contraband

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¶5. (SBU) Adrian explained that Bolivia produces approximately 970 tons of LPG per day, which is roughly equivalent to domestic demand. However, because of the vast price differential between subsidized Bolivian LPG and neighboring countries' LPG, a significant LPG contraband outflow reduces the amount available domestically, producing periodic shortages. The hydrocarbons regulator works with customs and the police to intercept contraband fuel, and the GOB is drafting a supreme decree to authorize the regulator additional powers to seize contraband (ref A). However, Adrian acknowledged that the root problem is the price differential, caused by subsidies that cost the GOB roughly USD 100 million per year. He believed contraband problems will continue until the root problem is attacked, perhaps through changing the energy matrix since price increases are politically untenable. The GOB is promoting installing natural gas connections in homes to encourage the public to use natural gas instead of LPG. However, the installation costs are formidable for the average Bolivian, and bringing additional natural gas to the Altiplano would require the construction of another pipeline from the southern gas fields.

#### Regulator's Uncertain Future

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¶6. (SBU) The GOB's National Development Plan released in June proposed the elimination of the six independent regulators -- hydrocarbons, electricity, telecommunications, transportation, basic services (water and sanitation), and forestry -- created by law in 1995 when state-owned enterprises were privatized. According to the plan, regulatory control would pass to the relevant ministries by January 2007, after the approval of a new law (reftel B). Adrian said that his office has not yet discussed this plan with the Hydrocarbons Ministry, and lamented the GOB's poor political perception of the regulators. He argued that his authority should be expanded, not reduced, to include regulation of the upstream producers, rather than just the downstream market. He added that his staff was technical, not political, and that for this reason, they had failed to advertise their accomplishments. He asked the Embassy to note the importance of maintaining independent, fair regulatory bodies in our meetings with GOB officials.

¶7. (SBU) Comment: Maintenance of apolitical regulatory institutions is important to ensure the efficient functioning of the involved sectors, fairness to U.S. investors, and control of corruption. We will note our concern about the GOB's plan to eliminate six industry regulators as appropriate with GOB officials. End comment.

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